

# 主席致股東報告書

## Chairman's Statement to Shareholders



**WANG KIN CHUNG, PETER**  
Chairman & Chief Executive Officer

### RESULTS

2002 was one of the most difficult years for the garment and textile industry worldwide in recent history. The adverse impact of the 9/11 events and keen competition led the Group to encounter unrelenting pricing pressure by customers.

As discussed in the Interim Report for the six months ended 30th June 2002, the Group had incurred a deficit in the First Half of 2002. In view of this, several major Groupwide initiatives were implemented during the year. With focused efforts undertaken by the Sales, Fulfillment and Supply Chain teams, the Group was able to improve its overall performance for the Full Year 2002. The Group achieved sales turnover of HK\$2,349 million and profit attributable to shareholders of HK\$62 million for the year ended 31st December 2002. When comparing with 2001, sales increased by 1% and profit attributable to shareholders decreased by 32%. Nevertheless, the Second Half of the year was vastly improved over the First Half, and 2003 was begun with a healthy sales pipeline and strong management focus on fulfillment cost efficiency and productivity.

### 2003 FOCUS

The primary focus of the senior management team in the coming year will be to improve profitability, focus on quality, build scale by proactively meeting our customers' needs, including product and compliance requirements, and develop our human resources.

#### *Improving Profitability*

Against a backdrop of global political and economic turmoil, the management team is focused on steering the Group to improved profitability. Our industry is continuing to face margin compression, starting from a decline in consumer spending and compounded by significant worldwide overcapacity in the garment industry. Nevertheless, we have the advantage of starting from a very solid operating network, with large scale and an excellent reputation.

The management team has developed a set of tools for optimizing factory loads for improved profitability. Despite a very soft First Half in 2002, in the Second Half of the year, our factories operated at loading levels of 50% to 100% more than the previous year. We generated higher volumes of outputs, but at lower margins, which was unavoidable in view of the overall industry trends. The management team is

# 主席致股東報告書

## Chairman's Statement to Shareholders

working on swiftly improving the productivity of the factories, and as a result, increasing both their capacity and standalone profitability. Garnering higher market share and scale is a clear objective of the Group, as customers are consolidating their sourcing relationships with a small number of large providers.

On the expense management front, our Sourcing and Logistics teams have ongoing and new initiatives, which will go into effect in 2003, with significant savings and service improvements targeted for the year.

### ***Focus on Quality***

Despite the negative trends in the global economy, the Group has maintained its reputation for quality, dependability, and scale. Our management team, starting with myself, view quality as our top priority. In 2003, quality is the unifying objective around which our fulfillment teams across all the sites come together. I am personally driving several initiatives whose objective is to ensure that the quality of our products and services to clients is of the highest level. This will be achieved through company-wide training, reengineering, and recruiting at all levels of production.

### ***Focus on Building Scale***

Despite the precipitous decline in business volumes during the First Half of 2002, our Sales teams still managed to work with existing and new clients to increase sales over the past year. Our Second Half of 2002 was particularly strong due to strong focus and discipline in sales management.

For the past several years, our customers have been in the process of consolidating vendors. They seek to do more of their buying from a smaller number of key vendors. It is not uncommon for them to be reducing from fifty undifferentiated vendors to half a dozen sourcing partners. Our large size, geographic scope, and full product range enable us to be among the winners in this consolidation.

### ***Product Range***

Just as we have focused on building production capacity, we also now offer a full range of products in the Dress-up, Casual, and Moderate areas. In the Dress-up category, we have made major strides with many of our strong historical relationships. We have further entered into important relationships with large global clients in the Casual and Moderate areas. With growth trends favoring the relatively new categories such as travel wear, active wear, and leisure wear, we have expanded our capabilities to produce large volumes of moderately priced garments.

### ***Focus on Customers***

In 2002 we spent a lot of time and energy understanding our customers' needs and requirements, starting from their target customers, fashion statements, image, attitude, to price points. In 2003 we plan on further strengthening our relationship with our clients through a better understanding of their strategies. Our top line growth rate, as extrapolated from the Second Half of last year looks very healthy.

We intend to continuously add value to our clients and help them in meeting their challenges. Our manufacturing engineering teams are equipped to translate customers' requirements into the specific details of a garment, seeking to achieve high levels of customer satisfaction in fit and look.

# 主席致股東報告書

## Chairman's Statement to Shareholders

### ***Focus on Compliance***

Corporate Social Responsibility ("CSR") continues to increase as a priority with customers as they respond to the demands of the marketplace relative to promoting workers' rights around the world. Total CSR compliance is a prerequisite for being a supplier and each year the requirements have become more stringent.

This year we have initiated efforts to make social compliance a strategic priority in recognition of this increasingly critical customer requirement. All sites have initiated actions to implement a consistent internal and corporate level auditing and accountability process encompassing Health, Safety and Environmental compliance in addition to meeting the Social Responsibility requirements of our customers. In addition to fulfilling the needs of our customers, we are simultaneously providing ourselves with a differentiation that is critical to success in the future by protecting our existing market share and facilitating growth.

### ***People Development Focus***

As we enter 2003, we are committed to continue recruiting high caliber people in all areas of our business, including Sales, Merchandizing, Fulfillment, Information Technology, Sourcing, Logistics, Finance, and Human Resources. More than ever before, these groups will be working together as a team, across functions and geographies. Already in 2002, Sales, Merchandizing and Fulfillment teams were brought much closer together by working on the Key Account principles and framework for working with our clients. This will be further strengthened in 2003.

## **2003 OUTLOOK**

Looking into 2003, management expects the global economy to continue to be volatile, given uncertainties arising from the Iraq War and the overall slowdown of the worldwide economy. In light of the political and economic uncertainties, customers are likely to adopt a "wait-and-see" stance and be even more cost conscious. Delivery cycle times will continue to be shortened and security concerns will make documentation requirements imposed on manufacturers exporting to the United States more stringent. Competition will continue to be very intense placing increasing pressure on margins, which will make it imperative that fulfillment be managed more tightly and efficiently than ever.

The United States continues to be our biggest market, representing 69% of the Group's total turnover. Growth in the European market is targeted to be a healthy increase of 6%. The Group will continue to strengthen its presence in these two markets. As for the Japanese market, the Group faces strong competition from manufacturers in the People's Republic of China ("PRC").

We have recently renewed a long-term license agreement for distributing Nautica apparel products in the PRC, Hong Kong and Macau through 31st December 2007. In view of the strong growth of the consumer market in the PRC, the Group will be launching a more aggressive and well-structured marketing strategy in order to bolster our market position in the PRC.

# 主席致股東報告書 Chairman's Statement to Shareholders

## APPRECIATION

I take this opportunity to thank our valued customers for their ongoing trust and support in the Group. To the entire family of Tristate employees, we express our appreciation for their dedicated and energetic service during a very challenging year. And last but not least, we wish to express our appreciation to our shareholders and business partners.



**Wang Kin Chung, Peter**

*Chairman & Chief Executive Officer*

Hong Kong, 31st March 2003